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# **The modest Progress of Arab Integration, or why some Arab Countries have integrated more with Europe than with their Neighbours**

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## **Abstract**

In this paper I explore the reasons why there has been comparatively little progress at Arab integration after 1945. At first glance this outcome might seem paradoxical because cultural factors, to which some scholars attribute a high importance for the progress towards integration, seemed strongly to favour Arab integration. The existence of a common Arab group-feeling, common language, common religion and the common experience of colonialism are to be mentioned in this context.

The low degree of Arab integration cannot be explained by just one theory or model. Various factors had a different impact at different points in time. Therefore the text contains on the one hand a narrative of historical developments in the different periods, and on the other hand a theoretical discussion of the factors working in these periods. As it turns out, structural internal factors (the character of the political regimes and the socio-economic systems) created path dependencies which for a long time worked against more integration. Once these structural features were in place, many important decisions could then be explained by rational-choice models.

Political antagonisms between Arab countries have abated considerably, and the socio-economic systems have become much more open than before. These developments have improved the conditions for integration considerably. In particular the initiatives towards a Greater Arab Free Trade Area can be mentioned in this context. However, there seems to be a much stronger trend towards integration with the EU-countries, economic, but in some first instances also political integration. The big EU market has been practically open for the Arab countries for a long time and worked therefore as a kind of economic magnet. In addition, the EU has developed a rather consistent policy of economic integration, practical cooperation and network building with the countries on the southern and eastern shores of the Mediterranean. Not the least the policy of giving these countries a “stake in EUs internal market” has the potential of creating important political spill-over effects.

## **Introduction: A low degree of integration in spite of a seemingly high degree of cultural commonness**

Some decades ago Arab nationalism seemed to be a formidable force, and numerous intellectuals in the region dreamt of the creation of one big nation “from the Atlantic to the Gulf.” But most projects at Arab integration turned out to be non-starters.

It would be wrong to state that there has been no progress at all at Arab integration. The Arab League, founded in 1945 by seven states, comprises by now 22 countries, and it has not been without effects. It created a regular forum for deliberations of the Arab leaders, and at times they were able to formulate common positions on important issues, for instance the Arab Peace Initiative of 2002. There are also numerous sub-organizations such as an Arab Monetary Fund, a General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries, or an International Confederation of Arab Trade Unions. These institutions can at least contribute to a common socialization at elite level. The League has also been assisting at cultural exchange, at shaping Arabic school curricula, preserving old manuscripts or translating modern technological terminology. In 1997 under the auspices of the League the program of a Greater Arab Free Trade Area (GAFTA) was set in motion, and it brought about important rounds of tariff reductions among the member states (albeit only of the type of “shallow integration”, see below). There is also considerable cross-border labour migration, from the non-oil states to the oil-rich countries. The remittances of the migrants became an important source of income for some Arab countries.<sup>1</sup> TV stations such as Al-Jazeera have a pan-Arabic audience, and so do some journals.

However, all this is much less than hoped for in the heydays of Pan-Arabism. And also in comparison with other regions, the Arab world is surprisingly non-integrated. The Arab League has remained a strictly intergovernmental organization. Unlike the European Union, there are no mechanisms for creating supranational legislation, nor is there a court of justice with the power to produce binding decisions. And in an overall view of the decades after 1945, harsh confrontations, including numerous armed conflicts, have been more characteristic for the Arab states than common actions, let alone integration. And in the economic sphere the Arab states have traded with the world at large, mainly oil and gas, but hardly among each other. Trade within the region accounts for only 5 percent of the GDP of the countries of the Middle East and North Africa (MENA); total trade openness of the region lies at only 8 per cent

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<sup>1</sup> By 1999, workers' remittances were as high as 18 or 21 percent of GDP (Yemen, Jordan), 6 percent in Morocco, 4 percent in Egypt and Tunisia and 2 percent in Algeria. However, the figures for the Maghreb countries include also remittances from Europe, mainly France (Fawzy, 19) and are therefore indicative not only of inter-Arab migrations.

of GDP (ECB 2004, 69). This makes the Arab world one of the least integrated regions in economic terms, similar in this respect to Sub-Saharan Africa (safe Southern Africa). By contrast, the countries of East Asia, having no League and no history of “Pan-Eastasianism” have highly integrated economies by now.

From a theoretical point of view, the low degree of Arab integration might look surprising at first glance. After all, when the Arab League was founded in 1945, the member states shared a common language and a common religious heritage. At elite level and among large sections of the population there was a pronounced pan-Arab “we-feeling” (Kramer, 182). Many scholars of integration have attach a high importance to cultural factors such as these and recurred, for instance, to a common European identity as the main factor behind the eastern enlargement of the EU.<sup>2</sup> But not the least the Arab experience shows in my view: Factors such as language or common identity do not bring about integration. They might be helpful, but they become secondary in the face of structures and of interests created by them. In this paper I will explain this position in more detail.

More specifically, I will give an historical overview over the development of efforts at Arab integration. At important junctions I then try to interpret the outcomes in the light of theoretical models which often are used in integration studies. It is my position that not one theory can explain the whole development, instead different models turn out to be relevant at different points in time. Not the least the choice of political regimes and of socio-economic structures played an important role because they unleashed far-ranging structural dynamics, often unintended. In the last decades, a slow process of economic convergence and openness and the lower degree of political antagonism between the political regimes in the Arab world have actually improved the prospects of Arab integration to some extent, economically and politically.<sup>3</sup> Progress, however, takes place mainly with smaller sub-groupings of the Arab World, most so in the Gulf Cooperation Council.

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<sup>2</sup> Erroneously, as I think (Zank 2005, in particular 49-54).

<sup>3</sup> As regards the terminology: I speak of cooperation when independent units cooperate without giving up their independence. *Integration* takes place when cooperation involves structural changes which make the units mutually dependent. Today economic integration is widespread, most countries are economically dependent upon each other; but the degree is different. Political integration takes when decision-making processes become interdependent. A weak form of political integration is the construction of an intergovernmental organization which implies at least common deliberations and thereby some extent of common socialization. Strong integration takes place when a supranational level above the states with important competences emerges

In order to understand the developments after the foundation of the Arab League, we have to go back to the decades before 1945.

### **The Rise of Pan-Arabism and the Founding of the Arab League**

“Awake, O Arabs, and arise!” wrote the poet Ibrahim al-Yaziji in 1868, perhaps the first significant expression of an Arab “awakening”, i.e. a nationalist movement among the Arabs under Ottoman rule. An important source seems to have been the discontent among Arab-speaking elite Muslims who felt discriminated against when it came to government positions in the Ottoman institutions (Kramer, 171-6). They started demanding autonomy and resisted Turkification and the use of Turkish at the expense of other languages such as Arabic. Conflicts of this kind arose also many places in Europe or e.g. in India. This can be explained if, as Eric J. Hobsbawm has put it, “we see the vernacular language as, among other things, a vested interest of the lesser examination-passing classes” (Hobsbawm, 118). Also the beginning of Zionist immigration to Palestine contributed at politicizing Arab circles. Interestingly, a movement of Arab literary revival, not necessarily translating into political nationalism, but indirectly supporting it by spreading pride about Arabic, owed much to the efforts of Arab-speaking Christian minorities who were interested in a medium for missionary work and modern learning (Kramer, 175).

As political force, Arab nationalism remained weak before 1914. But the Great War, which profoundly changed everything, changed also this, not the least by firing ideological emotions up to unprecedented heights. In 1916 the British concluded an alliance with a local Arab ruler, Sharif Husein of Hejaz, who rose in revolt against Ottoman rule, the promised price being a large Arab kingdom. His sons Faysal and Abdullah established contacts with nationalist circles in Damascus and could recruit Arab officers from the Ottoman army. When the Ottoman Empire collapsed in 1918, triumph seemed near, and Faysal formed an “Arab Government” in Damascus. In 1920 he let himself proclaim monarch of a “United Kingdom of Syria” which contained the whole Levant. His brother Abdullah was proclaimed king of Iraq.

But already during the war Great Britain and France had secretly decided otherwise (Sykes-Picot Agreement). The final details were 1920 settled at a conference in San Remo, and in accordance with these decisions French forces conquered Damascus and established a French Mandate Rule (Syria and Lebanon), whereas Palestine and Iraq became British mandatory territories. The British showed some flexibility towards their former Arab allies and in 1921 made Faysal king of an extended Iraq, of course under their supervision, whereas Abdullah received “Transjordan”, a piece cut off from Palestine where Jewish immigration became interdicted. But flexibility or not, seen from the

point of view of Arab nationalists, British and French policies were nothing but perfidy. Arab nationalism got a new and uniting enemy, the West. Numerous rebellions erupted throughout the Arab world in the 1920s and 1930s, from Iraq to Morocco, ruthlessly repressed everywhere, most so presumably in Libya, where Fascist Italy used poison gas in huge quantities and held large sections of the population in concentration camps; also Spanish troops used poison gas against Abd-el Krim in Morocco (Mattioli, 317-9).

There was thus much food for Arab rage, and with the spread of education and the Arabic press, Pan-Arabism gained immensely in popularity and conquered a solid place in public discourse. Pan-Arabism also spread geographically. Previously few Egyptians saw themselves as Arabs, nor did the Arab nationalists before 1914 do so. In the Maghreb where many people spoke Berber, resistance against colonial rule was originally under the banner of Islam. But the common experience of European colonialism made it possible to create symbolic bonds between Algerians and Syrians (Kramer, 182). Under the often humiliating conditions of foreign domination the idea of a great Arab nation with a glorious past and therefore entitled to a likewise glorious future, could restore pride, “from the ocean to the gulf”. And making the Arabs unite seemed to be the way forward to independence.

The Arab world gained independence, but not united. One by one independent Arab states emerged (Yemen being the first one, with de facto independence in 1918 and international recognition in 1920). Some of these new states have been political communities for a long time, for instance Egypt. But others such as Lebanon, Syria or Iraq were political artifacts whose borders were drawn by the colonial powers. But artifacts or not, with the exception of Lebanon they turned out to be rather resilient creations.

By 1944 seven states had practically (with some infringements of sovereignty such as the British rights in the Suez Canal Zone) gained independence: Egypt, Iraq, Lebanon, Saudi Arabia, Syria, Transjordan and Yemen. In Alexandria on 25 September they opened formal negotiations, seemingly with the purpose to give practical meaning to the cause of Arab unity. And on 22 March 1945 they signed the Charta of the Arab League. At first sight this might have looked like a first important step towards unity. But in fact it was a “victory for sovereignty” (Barnett and Solingen, 190). Earlier drafts had contained ideas of e.g. a collective security system, institutionalized military cooperation or development of a common foreign policy, but in the course of negotiations all these points, in fact every hint at arrangements which could restrict state sovereignty, became carefully discarded. Instead the Charta explicitly demanded “respect for the independence and sovereignty of these states.” All in all, the League “was not



intended to promote anything more than functional cooperation” (Barnett and Solingen, 192).

But the Arab leaders made some symbolic concessions to the cause of Arab unity. This was not completely without consequences. After all, the very creation of the Arab League confirmed and strengthened the notion of the commonness of the Arabs, and rhetorically the leaders conceded that they had to foster the Arab cause. This implied some restrictions on their policy. But it remained completely undefined what it meant to foster the Arab cause, this was open to all kinds of interpretation. In this sense the Arab leaders did not bind their hands very much by their rhetoric commitments.<sup>4</sup> And they knew already before they signed the Charta that they had to appear to be “good Arabs” because by then Arab nationalism was strong at home among the educated elites and the population at large. Being viewed as a “bad Arab” could imply a loss of political legitimacy. Quite logically, the ruling elites, wanting to guard their sovereignty, choose a solution where they made symbolic concessions to Pan-Arabism and created a League, while at the same time carefully taking care for that this League did not gain competencies which could infringe their power.

To sum this point up, we saw the rise of an influential nationalist ideological current, provoked by threats to cultural heritages and by foreign domination which actually made previously disparate currents unite. Ruling elites had to take this ideological current into account. But they did so almost exclusively symbolically. This can be explained by simple rational choice of self-interested national elites who wanted to preserve their power positions.

We can also go one step back and add a perspective in the optics of Historical Institutionalism: When the independent Arab states were created, with most boundaries drawn by the imperialist powers, state institutions were created within the borders of these states. With independence the ruling elites got a vested interest in preserving these state-bound power structures. The states, however artificially they were created, remained for the coming decades rather stable constellations, with very few border changes. We can see this development as a case of “path dependency”: The decisions taken at the time of

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<sup>4</sup> I therefore cannot quite follow Barnett and Solingen when they write that the “norms of Arabism” imposed “greater constraints on their foreign policy” (p. 194). There were no “norms of Arabism” except a diffuse expectation that Arab leaders had to work for unity and ought not collaborate with common enemies, or rather, not to do it openly. In practice, it meant that Arab leaders had to keep a symbolic distance to Israel. But it did not imply any obligation to go to war with Israel (these were free choices), nor did it imply assisting Arab states fighting with Israel *effectively*. It neither implied confronting the USA which have backed Israel all the time. The point that *some* Arab leaders such as Nasser tried to sell the message that “Arabism” meant confronting the US did not mean that this was part of a common Arab understanding.

creating these states shaped developments and restricted choices for a long time to come.

However, there were three factors over time which could have started dynamics towards closer integration: The Arab League institutionalized regular deliberations, which in other cases have led to a convergence of views. Furthermore, the Arab League created among other things a Secretariat and thereby a new political actor who could have worked as a catalyst for more integration. And last not least, functional cooperation has had in many other cases created “spill-overs”, not the least in the European Union, and thereby reinforced an integrationist drive. But in the Arab case, for many years to come a convergence of political views did not take place, rather on the contrary. The central institutions of the League were not able to start significant initiatives. Nor did functional cooperation gain importance; very few, if any, “spill-overs” came about. We will examine in more detail why this has been the case.

### **The First Great Test: The War of 1948/49**

On 29 November 1947 the United Nations passed a resolution which provided for the division of Palestine into a Jewish and an Arab state. Widespread fighting between Israelis and Palestine and Arab irregulars followed. Israel declared independence on 14 May 1948, on the basis of the UN resolution, but one day later the member states of the Arab League issued a declaration that they did not accept the division of Palestine, the only solution being a unitary Palestinian State, “where minorities will be assured of all the guarantees recognized in democratic constitutional countries”. Their declaration stated further that Zionist aggression had resulted in the exodus of more than a quarter of a million people; security and order in Palestine have become disrupted. Simultaneously troops of the Arab countries crossed the borders of Palestine. The Arab League had also established a common military high command and drafted a plan for the common invasion. At first glance, this looked like impressive collective action for a common cause. And close military cooperation could also have paved the way towards some political integration, for instance by creating common permanent institutions.

However, things developed in a completely different direction. As Avi Shlaim put it: “Each Arab state was moved by its own dynastic or national interest ... The Arab coalition was one of the most divided, disorganized and ramshackle coalitions in the entire history of warfare” (Shlaim, 82).

To begin with, the Arab “Headquarter” under the Iraqi General Nur-al-Din Mahmud had no control over the forces on the ground. Nor did the Arab armies move in accordance with the common war plan. This plan was drafted on the

assumption that the states would employ the full strength of their armies, but in practice they only sent comparatively small expeditionary forces. The Israeli side had actually more soldiers in every phase of the war. During the first weeks, critical for Israel, the Arabs had more military hardware at disposition. But this changed during the first armistice period, which the Israeli used effectively for shipping heavy weapons to the country and for training and regrouping, whereas the Arab side remained mainly inactive. When Egypt re-opened hostilities on 8 July, the Israelis outgunned their adversaries, and they did so for the rest of the war (Shlaim, 80f and 94). Due to the lack of coordination, the Arab troops had usually to move very cautiously, in order not to expose their flanks and risk being cut-off when advancing too far. In the last phases of the war the Israelis could concentrate forces and defeat their enemies one by one. After all, the outcome of the war was less of a miracle than sometimes depicted.

The member states of the Arab League had substantially diverging war aims. King Abdullah was actually not against a partition of Palestine, provided that he could annex the Arab part of the West Bank. He had made a deal with the Jewish Agency in this respect before the war, which, however, did not cover Jerusalem (Shlaim, 84). But when partition date came nearer, the popular pressure for the “liberation of Palestine” seemed to be overwhelming, Abdullah could not risk not going formally along with the others. He sent his Arab Legion, the most professional of the Arab forces, under the leadership of British officers, across the Jordan, but certainly not for the “liberation of the Palestinians”. In and around Jerusalem some of the bloodiest battles of the war occurred when the Arab Legion took and secured the city for Abdullah and repulsed heavy Israeli attacks. It looked as if Israel and Transjordan were the worst of enemies, but then for the rest of the war they became the “best of enemies”, as the Israeli writer Uri Bar Joseph put it, the Arab Legion fighting only when attacked.

Syria and Lebanon regarded Abdullah with utmost suspicion because they saw him as a threat to their independence; Abdullah entertained some ideas of a “Greater Syria”, with himself as the king of it. And Egypt’s King Farouq saw Abdullah as a rival for leadership in the Arab world. It was in order to counter Abdullah’s annexation plans that the other League members under Egypt’s initiative installed an Arab government for the whole of Palestine, seated in Gaza. Abdullah reacted by letting his Arab Legion forcefully disband the Palestinian irregulars of the Holy War Army.

Israeli forces broke the truce on 15 October in order to drive the Egyptians out of the Negev. They captured various towns and encircled an Egyptian brigade, in its ranks Major Gamal Abd-el Nasser. Transjordan remained neutral. General John B. Glubb, the commander of Transjordan’s Arab Legion, expressed the

hope that the Jewish offensive “may finally knock out the Gaza government and give the gypsies a lesson!” And: “The gypsies and the Gaza government are almost as hostile to us as the Jews!” (Shlaim, 98f). And when Israeli forces once again broke the truce on 22 December and stroke at the Egyptian forces, Cairo asked her Arab allies for help. Some did not seem to hear it. Lebanon, Saudi Arabia and Yemen promised help but did not do so in practice. Humiliated, Egypt had to ask for armistice negotiations which became effective on 7 January 1949 and ended this war.

All in all, the war of 1948/49 was the first big test of Arab unity. It failed dismally. Pan-Arab ideology was powerful enough to press reluctant politicians such as Abdullah seemingly to join a common front against Israel. But he did not want to destroy Israel; his interest was to secure for himself the West Bank with Jerusalem(which he formally annexed in April 1950). Solidarity with the Palestinians, allegedly the reason for the joint invasion, is not to be found in practice, Palestinians were interesting only when they could be used as pawns. As the main force of the Arab side we see the self-interest of ruling elites, trying to maximize territory and/or influence. Most of them lost the war whereas Abdullah and Israel were the winners.

Theoretical models of “prisoners’ dilemma and the like, i.e. problems of collective actions of rational self-interested actors under conditions of lack of trust and incomplete information, can explain the policy of the Arab countries. Rhetoric statements about Arab solidarity and Palestinian liberation were symbolic concessions to a widespread ideological current, but with very little, if any, political impact.

### **Sundry schemes of Arab unification and the United Arab Republic of 1958**

As even die-hard Pan-Arabists realized, there was no realistic hope for unification of all Arab states in the near future. But was it not possible that smaller subgroups united, perhaps as a first step for a more comprehensive unification? Indeed numerous schemes for unification of states were designed: “Fertile Crescent Unity”, “Greater Syria”, “Arab Federation”. In particular in the Fertile Crescent with its “states created without reason” (Kramer 183) ideas of this kind proliferated. But when turned into practical proposals they were hardly-disguised schemes for self-aggrandizement where one government wanted to use Pan-Arab sentiments for its own purposes. But these proposals were of no interest for the elites in the smaller states which were supposed to be swallowed And given the point that a merger of one or more states meant a loss of relative power for the other Arab states, these usually worked against unification schemes - not always in an open way because that would have cost legitimacy in the eyes of Arab audiences, but then in a hidden but nevertheless

efficient way, as e.g. Egypt did when the Iraqi government proposed a merger with Syria. An important role in these power games played the scheme of an Arab collective-security treaty, again a concession to Pan-Arab sentiments, which then, however, did not become implemented (Barnett and Solingen, 198-201).

In theoretical terms, we can again interpret this type of political games in terms of simple rational choice of national elites who make some symbolical concessions to ideological currents or try to exploit them for their own interests. In this view “non-unification” is just the normal outcome.

However, there was actually one example of unification, namely the creation of the United Arab Republic of Egypt and Syria in 1958. How can this “anomaly” be explained? In this context a model developed by William Riker becomes very useful. He emphasized the importance of external threats when it comes to the creation of federations. But before we discuss this theoretically, we will have a closer look at the historical emergence of the union between Egypt and Syria.

In Egypt by February-March 1954 Gamal Abd-el Nasser could decide the power struggles after the military coup of 1952 in his favour, to dominate Egyptian political life until his death in 1970. As we shall see below, in practical terms Nasser’s policies proved to be extremely divisive for the Arab world. But on the rhetorical plan he became one of the most vocal proponents of Pan-Arabism. Having no democratic nor traditional nor religious legitimacy, he endeavoured to gain political legitimacy by profiling himself as a champion of “social justice” in the form of “Arab socialism” (see below) and as a fighter for the realization of nationalist aspirations – firstly mainly Egyptian nationalism, then increasingly Pan-Arabism. And for some years Nasser was extremely successful at this. Aptly he played the great powers off one against each other. When the US refused to finance the Aswan Dam, Nasser received financing from the Soviet Union and China. And when, due to his support for the Algerian guerrillas and the nationalization of the Suez Canal, Great Britain, France and Israel attacked Egypt in November 1956, the United States came to his rescue (Kramer, 186).

In 1956 he emerged seemingly victorious against Israel and the biggest two colonial powers under whom the Arabs had suffered so much (and still did so by this time in Algeria). At last, here seemed to be a politician who could restore the dignity of the Arab masses, previously so often humiliated by Western powers and Zionists. Nasser could use his enormous prestige in order to mobilize the streets in other Arab capitals and thereby putting pressure on other governments.

Under the perception of an Israeli threat, Egypt and Syria concluded a pact of mutual defence in October 1955. Unlike the collective-security treaty of the Arab League of 1950, this one became partially implemented. Under the British-French-Israeli attack in November 1956 Nasser could use Syrian bases to disperse his fighter planes, and in October 1957 two Egyptian battalions were flown to Latakia, Syria, when tensions at the Syrian-Turkish border increased. Also agreements on economic or cultural cooperation were concluded. By that time in Syria the influence of the Baath party was rapidly rising, not the least within the army. Its program called for socialism, Arab unification and “democracy”. Syria was formally a parliamentary republic, but behind the scenes the army stood for the major decisions. In 1955 the Baath party could purge ring-wing officers from the army, but was still not strong enough to push for socialism (Etzioni, 99-101).

The Baath party acted in an alliance with the Communists. By the end of 1957 the Baath leadership, regarding itself to be the stronger force, all of a sudden realized that the Communist party had more members, and that the communist influence in the army was almost equal to their own. Against this background, the Baath party advanced the slogan of “unity now”. In January 1958, a delegation of army officers and politicians flew to Cairo and offered unification to Nasser. He accepted under two conditions: The union should be a unitary state and not a federation, and political parties should be abolished. The Syrian side accepted. On February 1958 the Syrian population overwhelmingly endorsed the union and Nasser as its president. Allegedly, 1,312,759 persons voted “yes” and only 39 “no” (Etzioni, 108). The union was declared to be the first step towards comprehensive Arab unity. Enthusiastic Nasserists dominated the streets in many Arab capitals, their rulers had reason for serious worries. Pan-Arabism seemed to be unstoppable.

But soon the union between Egypt and Syria ran into difficulties. Stepwise Nasser established direct rule over Syria; in October 1959 he made the Egyptian Field-Marshal Abd al-Hakim Amer governor of Syria, with unlimited authority and reporting directly to him. The “Egyptians ran Syria like a colony – and a badly run colony at that” (Kramer, 187). At the time of forging the union, Egypt’s march towards Arab socialism (see below) was well advanced, and several measures were taken to export it to the still pluralistic Syria with its by then rather open market economy. Capital fled the country and was illegally transferred to Lebanese and European banks. The import of “luxury items” such as washing machines, heaters, refrigerators and cars were forbidden. And experiments with land reform restricted the amount of land which an individual could own. This did not improve the lot of many Syrian peasants, but it was enough to make most land-lords abandon long-term investments. Opposition against Egyptian rule mounted (Etzioni, 114-17 and 131).

On January 1961, a group of seven Syrian army officers, all members of prominent families from Damascus, started planning a coup which they successfully carried out on 28 September. A Supreme Arab Revolutionary Command took control and declared they wanted to restore “freedom and dignity” to the Syrian people. Nasser decided not to try to suppress the coup by force. As he said: “Unity cannot be protected by force” (Etzioni, 120).

From time to time new schemes for unification came up, until the 1970s: Iraq with Jordan, Egypt with Libya, Egypt with Sudan. None of them came anywhere near realization.

The United Arab Republic of 1958 stands out as an exception; a union was indeed realized for some time. This can perhaps best be explained in the light of federalist theory, as pioneered by William Riker.<sup>5</sup> Given the point that “federalism” often is seen only as a set of normative statements in favour of integration and consequently labelled as “pre-theory”, it should perhaps be emphasized that there also exists a normal academic explicative theory of federalism. Riker, coming from the Realist School in International Relations, wondered why there are examples of voluntary federations at all. This implied, after all, the voluntary loss of sovereignty, something near impossible for Realists. He saw the solution of the puzzle in threats which were so substantial that they could make it advisable to rational self-interested elites to accept a federation. This constellation we found indeed on the Syrian side, exposed to an external threat from Israel and an internal one from the Communists. Riker’s theory was criticized for not having specified the character of the threat sufficiently. And Social Constructivists might rightly argue that the magnitude of threats is in the eye of the beholder. But this objection does not devalue Riker’s basic points, namely that states usually do not federate because of the implied loss of sovereignty, and that they do so only if the ruling elites conclude that a “federalist deal” is in their advantage. The Syrian elite did so in 1957/8, and given the widespread appeal of Pan-Arabism and Nasser’s high prestige, they could make the Syrian population accept the deal. Pan-Arabist ideology, in general of little practical impact on the actions of governments, could in this concrete situation assist at getting an elite decision to be implemented.

However, in order to understand why the union did not last, we have to look at internal conditions. One important point has been the absence of a democratic constitution and rule by law. Under these conditions federations are prone to degenerate into a system where the strongest group dominates the others. This could also be seen in e.g. Yugoslavia or the Soviet Union. Under these conditions perceptions of “us” versus “the others” re-emerge and pave the

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<sup>5</sup> A very useful overview can be found in McKay, 15-36.

ground for secessionism. But we have also to look at socio-economic structures. Syria and Egypt were very different in this respect, and this induced massive and un-wanted economic and social burdens on Syrian society, thus creating another important factor for secessionism. In the case of Syria secessionism was relatively easy, giving the strong position of the secessionists in the armed forces, and the geographic distance to Egypt. Furthermore, Nasser would have seriously shaken his prestige among Arab audiences, had he ordered a military repression of the Syrian secession

Neo-functionalist theorists have often highlighted the importance of similar political-constitutional structures and similar socio-economic systems for the success of integration schemes. The abortive United Arab Republic vindicates this perspective: It failed because these conditions were not in place.

We can expand on this argument: After the erection of revolutionary military rule and the introduction of schemes of Arab socialism in some countries, there was actually hardly any region in the world which had more adverse conditions for progress at integration than North Africa and the Middle East.

### **The Great Integration Blockers: Arab Socialism and Import-Substitution Industrialization**

The first practical experiences with Pan-Arabism in practice were disappointing. But there was still the possibility that more functional cooperation might build up new bonds among the Arab states. There were indeed efforts in this direction. The collective-security agreement of 1950 contained also a section on economic cooperation. This was followed up by a Convention for Facilitating Trade and Regulating Transit Trade in 1953 and in 1957 by the Arab Economic Unity Agreement. In 1964 new initiatives were taken in order to create an Arab Common Market (Fawzy, 15). The bottom line of all these agreements is that they did not become effective. Signing agreements and then not complying has been a recurrent feature with the Arab states. It might again be explained by the constellation of making symbolic concessions to Pan-Arabism, while in practice not wanting to give up sovereignty.

However, in the 1950s, seemingly the heyday of Pan-Arabism, a process started which erected heavy, solid barriers among the Arab states: The drive towards Arab Socialism in some countries, or at least to the milder Import-Substitution Industrialization in others. And the country pioneering this process was exactly Nasser's Egypt.

On 23 July 1952 the so-called "Free Officers" seized power. The group had been formed secretly presumably in 1942, after King Farouq had to accept a



humiliating British ultimatum. In the view of the conspiring officers, Egypt could have a future only if they could destroy the, as they saw it, interlinked power triangle of British prerogatives, the king and the liberal Wafd party (which dominated the parliament). The group never developed a coherent ideology, but in 1951 they formulated at least six guiding principles: Destroying British occupation and their Egyptian collaborators, eliminating feudalism, ending capitalism's domination over politics, establishing social equality, forming a strong popular army and creating a healthy democratic life. "These points were open to a variety of interpretations", as Arthur Goldschmidt put it (Goldschmidt, 89).

As it turned out, by "creating a healthy democratic life" Nasser and his comrades meant erecting a full-fledged dictatorship. Furthermore, soon after the coup the government engineered a land reform by which land from large estates were distributed to peasants. By this move the officers gained popular support (by then still about 60 percent of the population worked in agriculture), and at the same time they destroyed the economic basis of the traditional elites which dominated the Wafd and other parties (Goldschmidt, 92). Stepwise the supply of seeds and fertilizers, agricultural credit and the purchase of agricultural products came under tight state control. This way the state could transfer huge sums from the peasants to the state. The money was used to enlarge the army and to start an ambitious industrialization program, to be powered by the projected Aswan Dam. The state gained additional sources of income by the nationalization of the Suez Canal in 1956, and of foreign property after the Anglo-French-Israeli attack. Even more money could be mobilized by foreign credits, e.g. from China. State planning agencies were entitled to set up new state-owned companies. Finally, the July Laws of 1961 completed the march towards socialism. Most industries and all banks and insurance companies were socialized, others became strictly regulated. There was an upper limit of about 11,500 dollar for the annual salary, and the maximum amount of land which could be owned privately was again reduced, from 200 to 100 *feddan*, the *feddan* being about 1.038 acres (Goldschmidt 116f and 171).

Within a comparatively short time span Egypt society was profoundly transformed. The traditional elites were destroyed, and so was political pluralism, a free press and parliamentary rule. Political power was monopolized in one-party rule, with the army in the background. The means of production were predominantly state property, the rest were under tight state control. The coordination of economic processes and investment were mainly done by state bureaucracies. Nasser was no Moscow-trained ideologue. But the system he created came to show remarkable similarities with the Soviet model, or rather: With the model in place in Poland, the still large agricultural sector mainly in private hands (under state control).

This was not planned for in 1952. I see the main reason for this development in the working of structural functional prerequisites which start to operate once certain basic decisions are taken. János Kornai, of Budapest and Harvard, perhaps the economist who has most shaped thinking on the economies of socialist systems, coined the expression of the “affinity of the elements of the socialist system”. Using a chemical analogy, the phenomena attract and require each other: “The monolithic structure of power, petrified ideological doctrines, almost total domination of state-ownership, direct bureaucratic control, forced growth, shortage, and distrustful withdrawal from most of the world ... all belong to each other and strengthen each other” (Kornai 1992, 366).

The key point in this respect seems to be the large-scale confiscation of private property. Once this is done, private capital accumulation dries out as a generator of investment and growth. The state has to do most investment and needs more and more means for doing this. Markets become destroyed or at least heavily distorted, consequently state bureaucracies have to take over the coordination of economic activities – in an ever more comprehensive way. Private business must come under control because the state cannot allow that they become competitors for e.g. manpower, this would drive salaries in the state-owned sector up. Particularly important in our context: The state has to establish rigid control of cross-border activities, in order to prevent capital flight, in order to gain control over private exporters, and in order to protect its (usually rather inefficient) state-owned enterprises from foreign competition.

Quite a similar development took place in Algeria<sup>6</sup> after independence in 1962 and later on also in Syria, Iraq and Libya, military dictatorships all of them. Tunisia took some steps in this direction, but reversed them soon. It requires indeed revolutionary dictatorial rule to establish such a system because large-scale confiscations and massive infringements of economic freedom of practically the whole population can only be imposed by the use of force and the destruction of the old elites. In Morocco the traditional system survived, two military coups in 1972 and 1973 failed. King Hassan II based his rule on the support of traditional rural notables and French-educated bourgeois groups. Under these conditions, Arab socialism was no option. However, being an open economy at independence in 1956 Morocco gradually turned to a rather closed model of import-substitution industrialization where the receipts of the state-owned phosphate exports were used to expand the public sector and its enterprises behind high tariff walls. This was a much milder form of dirigisme than Arab Socialism, but it also impeded economic cross-border transaction to a high extent. In the Arab world only North Yemen, since 1990 the united Yemen, has had an open economy all the time (Sachs and Warner, 94).

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<sup>6</sup> I have discussed the developments in the North African countries in more detail in Zank, 2008 b.

This move to variants of socialism or Import-Substitution Industrialization in the 1950s and 1960s was not an Arab particularity; it was a world-wide movement which covered almost the whole Third World (and the Second). By 1960 only about 20 percent of the world population lived in open economies (Sachs and Warner, 12). How can such a worldwide trend be explained? One important factor was certainly the experience of the Great Depression in the interwar years. The Third-World countries, being independent or still colonies, exported mainly raw commodities and suffered from horrible setbacks. For instance, from 1928/9 to 1932/3 Egypt's export earnings plummeted by more than 60 percent. This was not even the worst case, in Chile the figure was above 80 percent (Kindleberger, 200). Against this background it cannot be a surprise that many politicians in the Third World were highly sceptical about the benefits of free trade. In the 1950s and 1960s this scepticism has been widely shared by many Western economists and by many specialists in the UN system. Most prominent was perhaps Raul Prebisch, the director of the UN Economic Commission for Latin America. He saw a danger that the logics of comparative advantage would lock the countries of the periphery into their status of primary-commodity producers where in turn they had to face systematic shifts of their terms of trade to their detriment. He (and many others) advocated the protection of infant industries and import substitution.<sup>7</sup> "Export pessimism" seemed all the more justified because at the end of the 1940s and beginning of the 1950s also the Western economies had still rather high tariffs and other barriers as to manufactured goods, let alone agricultural products. Consequently, import substitution and state-led industrialization seemed to be the rational conclusion of past experiences and present conditions. In many countries, for instance democratic India at the time of independence in 1947, it was based on a broad societal consensus, the business community included (Chandra, Mukherjee and Mukherjee, 444f).

Furthermore, cutting off many links to the world market could also be seen as "economic de-colonization", making the new states "properly" independent and "standing on their own feet". Leaders such as Nasser who tried to gain legitimacy by profiling themselves as "anti-imperialists" had therefore another reason to embark on inward-looking development strategies.

Furthermore, the seemingly successful industrialization of the Soviet Union, its victory in World War II and its rise to world-power status could not fail to impress and inspire political leaders all over the Third World. There was, however, one big difference. For Nehru socialism was inseparable from democracy; strengthening the public sector and economic planning had to be done in a democratic and consensual manner (Chandra, Mukherjee and

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<sup>7</sup> We notice, however, that the infant-industry argument favours selected, targeted protectionism, not an allround entrenchment, as it actually took place in many countries.

Mukherjee, 447). The matter was completely different with autocrats such as Nkrumah, Nasser or Boumedienne. Scholars such as Forrest D. Colburn emphasized the importance of ideas when it comes to explain the choices of revolutionary leaders: They were not constraint by institutions and pluralism and therefore “the time of experimentation and implementation of ideas can be dangerously compressed” (as quoted in Sachs and Warner, 17). However, at least for the Arab military dictatorship I would add a rational-choice argument: Large-scale confiscations and establishing a command economy was seemingly a way towards greatly enlarging their control over society. In particular the military profited from this, “transforming the Middle East into one of the most heavily militarized regions in the world, with the highest levels of military expenditures ... and the largest-sized military establishment relative to the general population” (Barnett and Solingen, 183). In this perspective, “socialism” appears to have been mainly an ideological smoke-screen. And Arab Socialism could become rather widespread for a period because the Arab states had rather weak institutions which made the region rather coup-prone. Between 1949 and 1980 there were 55 attempts, about half of them successful (Zoli, 105).

Whatever the constellation of factors in the particular case: As a consequence of the transition to socialism or import-substitution protectionism, a dense network of cross-border transactions, so important in the integration theory of e.g. Karl W. Deutsch, could not develop in the Arab world. Nor could neo-functionalist spill-over effects make themselves felt: Functional cooperation had to remain very restricted, any attempt of enlarging it carried the risk of undermining the protectionist systems. In the case of the countries practicing Arab Socialism also another aspect should be highlighted: Under Arab Socialism the business community and other interest groups, whether urban or agrarian, were declared to be enemies. As, for instance Algeria’s Houari Boumedienne declared: “Either the agrarian revolution will succeed ... or we will end up with a new Algerian bourgeoisie that will perhaps be tougher and more vile than the colonial bourgeoisie that used to exploit us” (Moore 1984, 592). This way, however, huge groups of potential practical workers for Arab integration became dissolved. As not the least the experiences of European integration have shown, the business community and other interest groups played an important role for lobbying for more integration. As early as 1958 Ernst Haas identified these groups as important proponents of further integration in his seminal “The Unification of Europe” (Haas 2004 [1957]) But the governments of “Arab Socialism” could not be lobbied in this direction because these lobby groups did not exist anymore.

Furthermore, the erection of revolutionary types of dictatorship divided the Arab world into two very different groups of socio-political systems: There were traditional authoritarian countries such as Morocco or Saudi Arabia, with their

old-fashioned notables, religious leaders and newer bourgeois elites, and there were the revolutionary dictatorships where traditional and bourgeois elites were downed, completely or at least to a high extent. Under these conditions at most some kind of closely circumscribed intergovernmental cooperation was possible, whereas any kind of closer integration which required mutual trust became excluded. Rather, mistrust and ideological and rhetorical incursions into the territory of the neighbours, with a view to undermine the government there, became the rule. In the 1960s during the civil war in Yemen the two groups came even into direct and indirect military confrontation: Egyptian troops intervened on the side of the republicans and Algeria delivered arms, whereas Saudi Arabia and Jordan backed the royalists. This was also an international conflict, with Great Britain supporting the conservative camp and the Soviet Union and China their adversaries (Heller, 130-135).

This was not the only inter-Arab military conflict: Algeria and Morocco fought a border war in 1963. In 1970 Syria intervened in Jordan in order to support the PLO, a move, however, stopped by air-force commander Hafiz el-Assad. Egypt and Libya also fought a short war. The Arab defeat in the war of 1967 against Israel dealt an incurable blow to the prestige of Nasser and other front-figures of Pan-Arabism. And in 1979, after the Camp-David agreement, Egypt, founding member and biggest Arab country, was even excluded from the Arab League. In the 1960s and 1970s, hardly any region on earth was visibly as divided as the Arab world.

When turning to comparative studies, early on authors such as Ernst Haas and Philipp Schmitter have underlined that neo-functionalist logics and spill-over effects could only create an integrationist drive when certain background conditions were in place, for instance social pluralism. I would highlight in particular the importance of the economy being open. These conditions were not in place in the Arab world (and many other regions. Mette Eilstrup-Sangiovanni concluded from this that neo-functionalist theory had very “limited scope” (Eilstrup-Sangiovanni, 96). I draw the opposite conclusion: By highlighting that certain conditions have to be fulfilled if integration is to progress, the theory also specifies when we *cannot* expect integrationist dynamics. The Arab World has been a case in point. A Pan-Arabist ideology and high-pitch rhetoric, a common language or a common religion could not be a substitute for pluralism and the openness of the economy.

We can also formulate these points in terms of Historical Institutionalism: The military coups and large-scale confiscations created dynamics which showed a high degree of “path dependency” – dynamics which worked strongly against more integration.

## **Gradual opening and progress at economic integration**

Inward-looking protectionist strategies and socialism turned out to be a road to bankruptcy, on a world-wide scale. As, for instance, Jeffrey Sachs and Andrew Warner showed, open economies<sup>8</sup> had a systematically higher growth rate: In the period from 1970 to 1989, open developing countries experienced on average a growth rate per capita of by 4.49 per cent; closed developing countries registered only 0.69 per cent. And furthermore, the closed economies experienced a long-term slowdown of their growth rates, from 2 or 3 percent in the late 1960s down to around 0 at the end of the 1980s (Sachs and Warner, 36f). This meant also that there was convergence within the groups of open economies (the poorer one growing faster than the rich ones), whereas there was no such trend among the closed economies. And last not least: Among those developing countries which were open in the 1970s, only one out of 17 experienced a major macroeconomic crisis in the 1980s (Jordan). But in the huge group of 73 closed developing economies in their sample, 59, or four out of five, were shaken by a major crisis.

Interestingly, even an extremely oil- and gas-rich country such as Algeria ran into a severe debt crisis. The reasons behind the Algerian bankruptcy were the following: The state commissioned the construction of numerous new industrial plants which, however, turned out to be financial sinks. Running these plants required also huge sums of foreign currency. Also enlarging the state bureaucracy and the army swallowed huge sums. At the same time, the agrarian “reforms” and the low prices for agricultural products impoverished the country side which in turn led to increased migration to the urban agglomerations and burdened social conditions there. The stagnating level of agrarian productivity also meant that more and more food had to be imported; alimentary self-sufficiency fell to 30 percent in 1980. The dinar was kept overvalued, not the least in order to keep imported food cheap, but this meant that practically no other economic branch outside oil and gas could compete on foreign markets. By 1993 97 percent of all export earnings came from oil and gas. The system

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<sup>8</sup> They classified a country as being not open when one of the following criteria was fulfilled: Average tariff of 40 percent or more, non-tariff barriers covering 40 percent or more of trade, a black-market exchange rate depreciated by 20 percent or more compared with the official exchange rate (indicating restrictions on access to foreign currency), a state monopoly on major exports (which implies distortions on foreign trade similar to tariffs), or being a socialist system according to Kornai’s classification (Sachs and Warner, 22). “Openness” in their classification thereby does not mean complete *laissez-faire* policies. As they point out, a country such as South Korea has had an actively intervening state. However, when compared with most developing countries, Korea’s trade barriers (and those of the other East and South East Asian countries) have been very modest. And as they further point out, a transition to openness implies a whole set of corresponding reforms, so their indicator “openness” is actually a proxy for a whole set of interrelated economic policies.

could be kept running as long as the oil price was high. But the lower oil and gas prices after 1985 meant increasing deficits which the government tried to cover with taking up more and loans. By 1992, 77 percent of the export earnings were used to service the foreign debt, and by 1994 her foreign exchange reserves were empty. There was no way but to go to the International Monetary Fund (IMF) and to ask for credit and a rescheduling of the foreign debt (Zank 2009 b, 123-6).

Processes of this kind could be observed in all countries of Arab socialism. But also Morocco's with her import-substitution industrialization experienced severe crises: At times when the phosphate earnings were high, much money was used to inflate the state apparatus and its loss-making state-owned enterprises. Falling phosphate prices then implied disaster (Zank 2009 b, 127).

Arab socialism and import-substitution strategies came out of fashion, gradually the Arab countries turned more open and more market oriented. Measured on the criteria of Sachs and Warner, Jordan became open already by 1965, Morocco in 1984, Tunisia in 1989 (Sachs and Warner, 84, 86 and 93). Tunisia turned out to be a rather consistent reformer on the way towards market economy and experienced also steady economic growth. Her GDP per head passed that of Algeria which is statistically heavily inflated by the oil and gas revenues. But in the other cases the process of reform was slow and erratic. Even in cases where the authoritarian ruler early on urged to proceed with it, as in the case of Morocco. Markets and cross-border exchange remained heavily distorted, albeit by a slowly decreasing degree. Consequently, economic growth was slow throughout most of the 1990s and early 2000s. The income gap between the Mediterranean Arab countries and those at the northern shores did not narrow for many years. It did so actually the last years (Femise 2008, 3-5).

How can the slow reform process (again a phenomenon to be observed in many Third-World countries) be explained? To a high-extent presumably by the fact that the long periods of protectionism have created vested interests in its perpetuation: Domestic industries which sell only on the home market, employees of state-owned industries and politicians whose power base is anchored there. These interests are rather concentrated and could thereby become powerful when it comes to the prolongation of the old system. By contrast, those who benefit from the reforms are more dispersed, and most of them have presumably not been informed about the potential advantages. Again models of collective-action problems can explain a lot; in particular the unequal strength of concentrated versus dispersed interests, as highlighted by authors such as Mancur Olsen, is important in this context.

The creation of vested interests in protectionism can also be seen as another case of “path dependency”: Not making a transition to openness completely impossible, but at least delaying it substantially.

Another factor has been oil and gas: High revenues from hydrocarbon exports enabled some regimes to postpone reforms. They had a motive for doing this because economic reforms towards more open market economies unavoidably imply some short-term political costs. But postponing reforms comes at a much higher price later on. Economists have therefore talked of a “resource curse”. Algeria or Libya have been cases in point. In this perspective it is no coincidence that the signatories of the Agadir Treaty, so far the boldest initiative to free trade among them, are Egypt, Jordan, Morocco and Tunisia, all of them countries with no or rather small oil revenues.

In addition, a transition to an open economy is for many people a journey into unknown territory and therefore frightening, a factor which groups hostile to reform could exploit. Also ideological anti-capitalist motives have played a role.

But some reforms towards openness and towards market economy took place. The Arab countries became more pluralistic, socially and also politically, although until now none of them can classify as democracy. It does not seem to be a coincidence that under these new circumstances the first initiative with real effects towards Arab economic integration could be launched: In 1995 the Arab League passed a resolution for free trade, and in 1997 18 countries signed the program for a Greater Arab Free Trade Area (GAFTA). The agreement basically provided for an annual reduction of tariffs by 10 per cent, and in January 1998, 14 countries which stood for 95 % of inter-Arab trade began actually implementing the program. In 2001 they decided to accelerate the process, and in January 2005 the custom duties and taxes of equivalent effect that were on the list became officially abolished, among by then 13 countries, Iraq not included (Wippel, 45). Other Arab countries will join later. Many barriers remained in place, but at least as regards tariffs progress has been substantial. For once, there has been tangible progress at Arab integration.

Another example of success at integration has been the Gulf Cooperation Council, founded in 1981 by six Arab gulf states. They have had similar political systems and are all ruled by traditional elites. They built up a rather close cooperation, mainly on the field of internal security, some currents of Islamism being their common enemy. But they also established a custom union by 2003 and are currently on a course towards economic and monetary union, a common currency to be installed by 2010.



However, as regards GAFTA there is something of “too little and too late”. To start with, as a result of the successive GATT and WTO rounds, tariffs are generally quite low by now. In the 1950s, a program such as GAFTA would have had a strong impact, but today its effect is comparatively modest. Furthermore, GAFTA is only about “shallow” integration which addresses mainly tariffs at the border. “Deep integration” with reforms “behind the border” such as liberalizing services and investment, intellectual property rights, harmonizing standards and other important non-tariff barriers were not included.

Non-tariff barriers are notoriously difficult to assess, but there are estimates. Very useful material is to be found in a survey, which Jamel Zarrouk organized in 2000. A questionnaire was sent to randomly selected companies and respondents in eight Arab countries. According to Zarrouk’s findings, by then tariffs and import duties were still seen as the major constraints. But *in addition* to these, the surveyed companies estimated the average costs of trading at about 10.6 percent of the trade value (Zarrouk, 50). The major burdens were, in the order of their importance, customs clearance, public sector corruption, mandatory product standards and certification of conformity, trans-shipment regulations and visa restrictions for business travels. “Informal payments” to officials were on average at a level of 1 percent of the value of the goods, with variations among the countries. Egypt, Lebanon and Syria ranked high, whereas in Tunisia and the UAE the payment level was rather modest. Import clearance was very time consuming. It took two to five days on average to get goods released imported by air, two to ten days for sea transport and one to three for lorries (Zarrouk, 53). Importers had to file 5 or 6 documents and needed 10 to 20 signatures (every signature, of course, a potential corruption point). On average a company had to use 95 work-days per year for resolving customs procedures and being in contact with other government officials. In Egypt, Jordan and Syria 100, 200 and 209 work-days respectively had to be used for this. However, at least in Egypt and Jordan matters have improved relatively.

On the field of services, the major obstacles have been licensing procedures, state monopolies on certain fields, exclusive agency laws, the mandatory employment of nationals and again corruption. As to the business climate in general, weak legal systems were identified as the major obstacle, enforcing a contract is usually very difficult.

We might add to this list of barriers the point that also the physical infrastructure for inter-Arab trade is still inadequate in many places. This is easy to explain: Why should the countries in the past invest in costly cross-border infrastructure when there was not much trade anyhow due to the protectionist systems? Seen in this light the inadequate infrastructure reflects past policies. But today the infrastructure bottle-necks act as barriers on their own to the expansion of trade.

In comparative terms, the Arab countries have *become* relatively poor. Egypt's per capita income was in the 1950s similar to that of South Korea, by now it is less than one-fifth. Morocco's was close to that of Malaysia and is today only one third. And Saudi Arabia's, higher than Taiwan's in the 1950s, is less than a half by now, Saudi Arabia's oil richness notwithstanding (Galal and Hoekman b, 2). This means in relative terms, in the 1950s the Arab countries could have been interesting markets for each other; by now, because of their relative poverty other markets are much more interesting for most Arab exporters.

### **More integration – with Europe**

In fact, for most Arab countries the EU member states are much more important as trade partners. In the period of 2000-03 Morocco, Tunisia, Algeria, Mauritania and Libya had more than 50 percent of their trade with the EU-15 countries, the figure being as high as 74 percent for Tunisia and 62 percent for Morocco. Trade with GAFTA countries has been a small fraction of this, 7 percent in the case of Morocco and Tunisia. Only Jordan, land-locked inside GAFTA, has had a higher share with GAFTA countries than with the EU-15; 29 versus 23 per cent (Wippel, 45). And in the last years trade with the EU has developed rather strongly in absolute terms. The relative share of the EU, however, has been slightly declining, due to the dynamic developments in other emerging markets (Femise, 8-10).

On first glance it looks almost natural that the EU became the major trade partner for most Arab countries, given the point that Arab exporters could find in Europe a rather rich market in relative proximity. But it has also very much to do with EU policy. At a time when the Arab countries isolated themselves from each other, the EU<sup>9</sup> was comparatively open. And in the course of time it turned progressively ever more open.

The Treaty of Rome of 1957 lifted trade policy on the supra-national community level, and it opened also the possibility of concluding association agreements with other countries. However, in the 1960s not much progress could be recorded as regards the Arab countries. But in 1969, after protracted negotiations, agreements with some trade preferences, including agricultural products, could be concluded with Morocco and Tunisia; Italy, being worried about more competition, received some side-payments to improve her olive oil and citrus production. In general, by then the Mediterranean non-member countries were low on the list of the priorities of the EU (Gomez, 26-30 and 39). Why did Morocco and Tunisia sign agreements? These countries were ruled by rather pragmatic pro-Western or at least not anti-Western elites and therefore

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<sup>9</sup> For the sake of simplicity I write consistently EU although it was for many years abbreviated e.g. EEC.

actively interested in cooperation. This was a rarity by then. Other Mediterranean Arab countries – Algeria, Egypt, Syria - were in the 1960s ruled by new dictatorships which tried to garner legitimacy by profiling themselves as “anti-imperialist”. By contrast, the kingdom of Morocco was built on traditional and religious legitimacy. Furthermore, a substantial part of its elite, including King Hassan II, were socialized to work for Western-type modernity, at least in its technological and administrative sense. The same was true was the Tunisian leadership under Habib Bourguiba, the independence party Neo-Destour to quite some extent modelled along the lines of the French socialist party (Murphy, 44-7). Also these constellations created “path dependencies”: Ever since Morocco and Tunisia have been the front-runners when it came to extending cooperation with the EU.

EU policy towards the Mediterranean was placed on a much more comprehensive basis with the formulation of the Global Mediterranean Policy (GMP), a strategy formulated by the Commission in 1972 on request of the member states. According to Eberhard Rhein, a former director of DG1 in the commission, the GMP was the “first example of a coherent piece of Community foreign policy” (Gomez, 34). The Arab-Israeli war of 1973 and the ensuing oil embargo brought the Arab world to the forefront of the agenda.

The GMP envisaged concluding “Cooperation Agreements” with all Mediterranean non-member countries. These countries should have improved access to the EU markets. The long-term aim should be a Mediterranean Free Trade Area – not many Arab leaders by that time thinking in such terms. The Cooperation Agreements should also include provisions on technical cooperation, technology transfer and capital movements, migration and environmental and financial cooperation. In addition, loans and grants from the EU budget and the European Investment Bank (EIB) were to be mobilized. Finally, various forms of trans-Mediterranean dialogue should be institutionalized.

In the period up to 1977 the EU created a network of 13 new agreements which covered all Mediterranean countries except Albania and Libya. In addition membership negotiations were under way for Greece, Portugal and Spain. The EU came thereby geographically closer to the Arab world. In this process in April 1976 Cooperation Agreements were concluded with Algeria, Morocco and Tunisia. Lebanon followed in May 1976 and finally Egypt and Syria in January 1977. From this point onwards the Arab countries which participated in the scheme have had free access to the EU markets in industrial products except textiles and refined petroleum products. The duties on agricultural products became completely removed for some products and substantially lowered for

others. Also the markets of the Iberian countries and Greece became gradually open for Arab products.

Also these Cooperation Agreements were asymmetrical: The EU opened its markets, but the Arab partner countries did not have to do so likewise. From the perspective of Pan-Arabism this had a paradoxical result: The Mediterranean Arab countries could practically freely export to the EU. But not towards each other, there heavy restrictions remained in place.

However, the Cooperation Agreements were soon seen as insufficient. By now there were much fewer restrictions on the EU side, but the remaining ones, e.g. on textiles, were felt heavy burdens on the southern and eastern shore of the Mediterranean. Many Arab countries had to struggle with severe economic problems, and the rise of Islamic Fundamentalism created worries also in Europe. In particular for France, Spain and Italy Mediterranean problems became a top priority, and when they held the EU presidency in 1989 and 1990 they could support Commission proposals for a “Redirected Mediterranean Policy” (RMP) which aimed at a new generation of agreements. In this context in 1990 all restrictions on textile imports from Mediterranean countries were lifted, and the funds from the EU budget and the EIB were nearly tripled. An innovative trait: 2.3 billion ECU were mobilized in order to support “decentralized, horizontal or regional cooperation” (Gomez, 49-51). In other words, the EU started to fund practical initiatives at Arab integration.

In 1993 negotiations for so-called Euro-Mediterranean Association Agreements were opened with Morocco and Tunisia, soon afterwards also with the other Mediterranean non-members (except Libya) and with Jordan. In 1994 these treaty negotiations were grouped in one framework, the “Euro-Mediterranean Partnership”. The treaty with Turkey in 1995 was the most comprehensive one and established a proper custom union with the EU. Negotiations with the other countries were aimed at establishing free trade in industrial goods after a transition phase of usually 12 years. This time it was not any more on preferential market access to the EU market. Now the non-member countries should bring down their trade barriers too, but could also get more EU support. Accepting this line implied, of course, the official end of “Import-Substitution Industrialization”.

Egypt, Jordan, Morocco and Tunisia were the countries which showed most interest in such a process, the negotiations for Euro-Mediterranean Agreements were concluded already in 1995 with Morocco and Tunisia, with Jordan in 1997 and with Egypt in 1999. These countries signed also bilateral free-trade agreements among each other. In 2001 they also launched the so-called Agadir Process with a view to establish a Free Trade Area among them. This new

“Agadir Agreement” was signed in Rabat on 25 February 2004. At first sight this looks like duplicating the GAFTA process, but it is not. The Agadir countries decided to liberalize in close contact with the EU. For instance, they liberalized among themselves trade in all goods which were covered by the Euro-Mediterranean Association Agreements, thereby avoiding that these agreements might create hub-and-spoke effects with Europe. The agreement is also more comprehensive than the GAFTA treaty allowing for fewer exceptions. A complex problem were the “rules of origin”. In the Euro-Med Associations Agreements these rules are formulated rather generous, allowing also for diagonal cumulation (a shirt produced in, say, Tunisia with cotton from Egypt and buttons from Morocco can enter the EU on the same term as if all was produced in Tunisia). In 2002 a unified “Pan-Euro cumulation system” was created and applied to the eight Arab partner countries and Israel. The Agadir countries opted for applying these rules also among themselves (Wippel, 8-10). This was also a sign of a clear commitment to the idea of the Mediterranean Free Trade Area, and of giving priority to the Mediterranean project over the GAFTA process. Among the non-EU members, the Agadir countries are the front-runners of the future Mediterranean Free Trade Area. The rules in GAFTA diverge in some fields from the Pan-European ones, which in some cases created additional costs of e.g. certifying.

Numerous studies have confirmed that the gradual opening of the Arab economies as a consequence of the Euro-Med agreements has been beneficial, and the effects ex-post were actually bigger than the ones calculated ex-ante. According to a FEMISE report, every reduction of tariffs by 1 percent was matched by a GDP growth of 0.3 percent; consumption rose by 0.116 per cent and investment by 0.176 per cent. Naturally, imports have reacted stronger than exports (0.376 versus 0.288) because it was the non-members which had to become more open whereas the EU side was open already beforehand (Femise, 3). But according to expectation in the course of time also exports will receive a boost because it is now much easier to import inputs for export production.

Also the accompanying measures to the Euro-Med agreements seem to have been beneficial. According to Zarrouk’s survey, companies in Morocco and Tunisia (the first to sign) mentioned in particular the *mise à niveau* programs, tailored courses for the restructuring of companies (Zarrouk, 57).

In November 1995 at the conference in Barcelona a new multi-lateral and multi-level process was launched which has involved the EU member countries and all Mediterranean non-members, Israel included. The governments endorsed a declaration which envisaged a working program on three fields: Political and security partnership, economic and financial partnership and partnership in social, human and cultural affairs. The economic chapter contained a

commitment to establishing a Mediterranean Free Trade Area “covering most goods” by 2010.<sup>10</sup> Regular meetings on all levels should promote mutual understanding and concrete cooperation. The contacts have indeed multiplied, numerous fora and workshops have taken place; many new patterns of institutionalized cooperation across the Mediterranean Sea were installed. One example is FEMISE (Forum Euro-Méditerranéen des Instituts Économiques), a regular cooperation of economic research institutes, with a view to monitor the progress at economic cooperation, whose 2007 report was quoted above. The numerous contacts and forms of cooperation have had a socializing effect and created among those involved a “spirit of partnership” (Jünemann, 8). And during the process the amount of financial support from the EU was considerably increased. In the second half of the 1990s it corresponded to 0.2 percent of the aggregate GDP of the recipient countries; in the 2000-2004 period it was up to 0.5 percent (Nsouli, 5) The long-term effects of the Barcelona Process might be important.

However, when taking stock of the progress ten years after the Barcelona Conference, the observers came to rather sober assessments. Measured along the expectations of 1995 the results were modest. One major factor was the worsening of the Palestine conflict which made Arab states down-scale or end their participation in forums where Israel was present. Another major obstacle to cooperation and dialogue has been conflicting interests and understandings. For instance strengthening human rights is not a point which authoritarian regimes have on the top of their priorities. Also combating terrorism becomes difficult when there is not consensus about who the terrorists are. There are therefore inherently strong limitations for this kind of intergovernmental multilateral cooperation. In particular, when some of the participating countries are still rather closed.

The Barcelona Process became re-vitalized in a somewhat strange way in 2007, when the French President Nicholas Sarkozy launched the idea of a *Union pour la Méditerranée*. Originally it was clearly intended as a new club, comprising only the countries along the shores of the Mediterranean, with the possible addition of countries such as Mauritania. One hidden aim was, according to press reports, to create an alternative for Turkish EU membership. However, Sarkozy came under strong pressure from other EU leaders, not the least Germany’s Angela Merkel who insisted that the EU has developed a common Mediterranean policy, and that there was no need to start initiatives to weaken it with new arrangements which would exclude most EU members. And there could surely be no EU money for such an initiative. Sarkozy gave in, the face-

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<sup>10</sup> This deadline has become unrealistic because some of the Euro-Mediterranean Association Agreements came into force later, 2005 in the case of Algeria. The transition time of 12 years means that free trade is postponed accordingly.

saving solution being that the Mediterranean Union could be created, but firmly within the Barcelona Process (Hehn). It was officially launched on 13 July 2008. In addition to the countries of the Barcelona Process, also Mauretania, Croatia and Bosnia-Herzegovina are along. But otherwise it looks very much like just another name for something which has been there already beforehand.

Presumably much more important than Barcelona Process or Mediterranean Union was the launch of the European Neighborhood Policy (ENP) in 2003. This was yet another initiative to strengthen the ties between the EU and her neighbours, both in the south and the east. In contrast to the Barcelona Process, the neighbouring countries become targeted one by one. If a country is interested, the EU offers technical and financial support (the amount of money again being increased) on practically all fields. The explicit aim is to strengthen human rights, democratization and economic integration. If a neighbouring country wants to participate, it has to accept that the EU Commission writes a “country report”, and thereafter the two sides can elaborate an “Action Plan” where the priorities are listed which the EU will direct its assistance at. Currently ( January 2009) such Actions Plans are in place in the Mediterranean Basin with Egypt, Jordan, Israel, Lebanon, Morocco, the Occupied Palestinian Territory and Tunisia. Libya, originally not on the list of the ENP countries, has moved dramatically in relative terms and seems to opt for more cooperation with the EU. Also Syria seems to be moving in this direction. In the case of Algeria, an association agreement with the gradual move to free trade came in force in 2005, but the government does not seem to be interested in a closer cooperation as envisaged by the ENP.

As a novelty, the ENP offers a “stake in EU’s internal market”. The precise content of this term is still in the process of definition, but it implies assisting these countries at overcoming barriers to their exports. In particular the dense networks of EU regulations can be a substantial problem. For instance on the important field of agricultural and food exports the phyto-sanitary and veterinary regulations of the EU are in many cases a bigger hindrance than traditional protectionism. But exactly here the EU can assist at building up the necessary expertise and institutions, programs of such kind are in place in several countries. This is part of a much broader problem, namely that the EU has become a regulator and norm setter also for markets outside its borders. Numerous countries and companies have voluntarily adapted to EU norms, in order to have access to the EU market. Others anticipate that when it comes e.g. to ecological standards, the often stricter EU norms will be introduced in other countries sooner or later too, which creates another motive to comply with EU norms. The process of adapting to EU norms can have far-reaching consequences for neighbouring countries and can result in substantial spill-overs.

The acquiring of a “stake in the internal market” has the potential of “deep integration” with the EU, an integration which implies many changes “behind the borders”. The process will presumably also include services. Again according to FEMISE, the potential gains for the Arab countries are high, but very different from sector to sector, and with some problematic side-effects, if executed too briskly; for instance the opening of retail trade will be beneficial for consumers, but it could create serious unemployment problems (Femise 2007, 41-51). Liberalizing services will also require for more mobility across the Mediterranean because service production usually implies that the provider is physically present at the customer.

The network of cooperation between Mediterranean Arab countries and the EU is already quite dense. This is in particular the case with Morocco and Tunisia, which have followed such a course rather consistently the last decades. Also Egypt has clearly developed in this direction. It is difficult to assess the political impact of this cooperation. What does it mean that e.g. Tunisia and Morocco participate in the Galileo satellite project? Or that students from these countries receive Erasmus grants? That Morocco participates at the EU peace keeping mission in Bosnia Herzegovina? Or more recently, that the customs authorities of all 27 EU members, of Croatia and Norway, but also Morocco and Tunisia jointly stroke at illegal cross-country money transfer? (Fri./now).

The network of institutionalized cooperation across the Mediterranean Sea seems to be much denser than the one between the Arab countries. Now the Arab countries have become relatively open, at least in economic terms and in comparison to previous decades. Interest groups such as the business community can develop (albeit to a different degree). Now we can expect spill-over effects among Arab countries, of the functional, political and the cultivated type. But in a number of Arab countries the spill-overs seem to favour mainly integration with Europe.

In particular I expect the project of a “stake in EUs internal market” to have the potential of unleashing strong dynamics. For those countries which are interested in getting this stake, EU decisions will become of increasing importance. They will therefore have a likewise increasing interest in influencing EU decisions, for instance through intensified dialogue or direct lobby activities in Brussels. Increasingly the governments of these Arab countries have to direct their attention to Brussels.

It was processes of this kind which Ernst Haas detected in the 1950s in the European Coal and Steel Community and which made him make the prognosis that the process of integration was a self-reinforcing one, and one with a kind of external magnetism. He observed, for instance, already by then significant shifts



in the attitude of leading British politicians towards European integration (Haas, 313-317). And as we know, a British membership application did then not wait for long.

A membership of Arab countries is excluded for some time to come, not the least because these countries are not democratic. But provided these countries will make a proper transition to democracy, EU membership applications will be more likely than not. It will be in the logic of this process. And as I have argued at another place, Muslim religion cannot justify a rejection of Turkish membership (Zank 2009 c). Neither could it do so in the case of Morocco.

## **Conclusion**

From a cultural point of view, in 1945 the conditions for Arab integration seemed to be good, given the point that they had the same language and religion and a common experience of Western domination. But for decades it made hardly any progress, on the contrary, in the 1960s the Arab world was extremely divided. The reasons for this development were multifold.

The construction of independent Arab states created lasting path dependencies because thereby also national elites with vested interests in the sovereignty of their states were created. Simple rational choice can then explain the weak institutions of the Arab League of 1945: Pan-Arab ideology was strong enough to make the Arab leaders granting symbolic concessions to this idea, but it could not force them to compromise sovereignty. Also their behaviour during the war of 1948/49 can mainly be explained in terms of rational choice, the keywords being collective action problems under the conditions of lack of trust and information (“prisoners’ dilemma”).

The new Arab states turned out to be resilient, but compared with e.g. the European countries they had relatively weak institutions. This made them prone to military coups. The revolutionary military regimes opted for models of “Arab socialism” with large-scale confiscations and dispossessing of traditional elites. This opened a deep cleavage between revolutionary and conservative Arab countries. In the civil war in Yemen coalitions of Arab states were confronting each other directly or indirectly. The strong differences in the political systems acted as a serious break on any kind of cooperation. Equally important in the long run were presumably the unintended consequences of Arab socialism and Import-Substitution Industrialization: Most Arab countries built up high protectionist walls against each other. And as it turned out, socialism and import substitution were strategies which created stagnant economies and led to bankruptcy in most cases. Important from an integration perspective: Erecting protectionist borders and, as in some cases, eliminating social groups such as the

business community, prevented the development of a dense network of transactions and effectively blocked the working of spill-over effects. This way in practice very vocal champions of Pan-Arabism such as Nasser in practice destroyed the chances for Pan-Arabism – presumably unintended.

Many unification projects of smaller groups of Arab states did not come near to realization. They were usually schemes for self-aggrandizement and had therefore small chances of acceptance by the proposed junior partner, pan-Arabist rhetoric notwithstanding. The union between Egypt and Syria of 1958 stands out as an exception. It can be explained by federalist theory, as pioneered by William Riker (federation as the outcome of a threat); Syria accepting a junior position because Israel was seen as an external threat and a communist take-over as an internal one. Pan-Arabist sentiments among the Syrian Baath party were a contributing factor for the union. But the union could not be stable because Egypt treated Syria as a colony, and because the social systems were diverse. Exporting socialism to Syria, by then still rather pluralistic and market-oriented, provoked heavy resistance. A coup in 1961 ended the union.

Socialism and import-substitution became discredited in the 1970s and 1980s. However, reform processes were very slow in most cases (Tunisia being an exception in relative terms). The slowness can be explained by the relative strength of vested interests in protectionism, which were concentrated, whereas the benefits of economic openings were dispersed and often not clearly known. Also this development can be seen as path dependency. Ideological factors contributed also to slowing down the process of opening. As a consequence many Arab countries had non-performing hybrid economies for many years, growth rates remained slow. But the last years economic dynamism has returned at last.

The gradual turn to open economies made it also possible that for once Arab integration gained practical importance with the launch of the project of the Greater Arab Free Trade Area (GAFTA); it resulted in important tariff reductions. However, this has been in so far “shallow integration”, not resulting in lifting of non-tariff trade barriers such as product standards, and it did not apply to services. A regional initiative, however, the Gulf Cooperation Council has been rather successful. In this case similar political regimes could install lasting cooperation, mainly in the field of internal security. But they also created a customs union and are preparing a monetary union: Important steps at economic and also political integration.

As it turned out, for most Arab countries the European countries have been much more important economic partners than the Arab neighbours. On the one hand, this was due to the size of the EU market. But it was also a result of EU

policy which opened the EU market for Arab products early on whereas Arab exports to other Arab countries remained blocked. In the 1990s the EU worked actively for the aim of a Mediterranean Free Trade Area and offered upgraded assistance to countries which accepted the gradual lowering of their tariff barriers. The first countries to accept this were Morocco and Tunisia, later also Jordan and Egypt. These countries launched also the Agadir process, establishing free trade among them, more comprehensively than under the GAFTA project, and based on EU rules of origin.

With the opening of the Arab economies and the reformation of social groups such as the business community we can expect a pressure for more cooperation and the development of spill-over effects. Spill-over effects will presumably produce closer Arab integration, but they seem to work mainly towards more integration with the EU, at least as regards some Arab countries.

When launching the European Neighborhood Policy (ENP) the EU offered a “stake in the Internal Market” and additional support on the basis of Action Plans which were to support human rights and stabilizing open market economies. The ENP and “stake in the internal market” brought deep integration” with the EU on the agenda, implying not only changes at the border, but also “behind the border”. We can expect that EU decisions will become increasingly important for the Arab countries. It is therefore likely that they increasingly will turn attention to the EU and try to influence EU decisions, by dialogue and lobbying. In case one or more Arab countries will become properly democratic, applications for EU membership are more likely than not.

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